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ALTERNATIVE SYSTEMS OF NATURAL RESOURCES MANAGEMENT
INCLUDING MANAGEMENT OF THE EXTERNAL DEBT

INTRODUCTION

1. In accordance with the United Nations Programme of Action for African Economic Recovery and Development 1986-1990, Africa is committed to providing the necessary framework to launch long-term programmes for self-sustaining socio-economic development and growth. Africa's commitment has, however, been weakened by low domestic savings and low inflows of external resources. 1/

2. As a result of such low resources, many African countries have decided to reduce their budget dificits, reduce and reorient public spending in order to increase domestic savings and improve the methods of mobilizing and allocating scanty external resources. African countries are also trying to improve overall economic management, to increase the efficiency and effectiveness of the public sector, to give greater encouragement to market forces and the private sector and to mobilize domestic and external resources.

3. It appears, however that despite all the above mentioned efforts and the implementation of economic reforms under the auspices of the International Monetary Fund (IMF) and the World Bank, the domestic savings ratios of African countries have remained very low; 2/ a glance at some categories of non-oil exporting countries which include the Sahelian and least developed countries (LDCs) amply illustrates this. Moreover, net external flows did not keep pace with the pattern of financing requirements of African countries mainly because of the increase in debt-servicing payments and the decline in export earnings, direct investments and official development assistance.

4. These combined factors continue to aggravate the financial crisis at a time when monetary and financial issues are proving to be crucial in international relations.

1/ See the United Nations Secretary General's report on the Critical Economic Situation in Africa: Mid-term review of the implementation of the United Nations Programme of Action for African Economic Recovery and Development 1986-1990, doc. A/43/500.

2/ ECA Survey of Economic and Social Conditions in Africa 1986-1987, doc. E/ECA/CM.14/4 table II.4: The savings ratios of the Sahelian countries were the lowest in the world: 1.7 per cent in 1985, 3.4 per cent in 1987 and they are estimated at 4.6 per cent in 1988. See also doc. A/43/500 op.cit. "The majority of African countries have adopted policy reforms and structural adjustment measures designed to improve economic performance. Economic performance during 1986-1988 has been disappointing. The gross domestic product (GDP) of the region rose by 0.8 per cent in 1987, per capita income fell by 2.2 per cent in 1987".

5. The present study is therefore part of efforts to assess the current systems of external resources management including management of the external debt. The external debt is included by virtue of the fact that the Priority Programme for Africa's Economic Recovery 1986-1990 that African countries have committed themselves to implementing considered the external debt problem as being the most important aspect of Africa's economic and social crisis.

6. The present document is divided into the following chapters:

I. Financial flows to Africa.

II. Evaluation of the impact of external financial resources on Africa's development;

III. Weaknesses of the current systems of external resources management

IV. Analysis of other systems of external resources management including management of the external debt.

CHAPTER I: FINANCIAL FLOWS TO AFRICA

A. Domestic savings

7. With the exception of 1987 where estimates seemed to indicate an upward trend (19.3 per cent), the share of Africa's domestic savings in the gross domestic product (GDP) which was 19.8 per cent in 1979 declined during the 1980s. Indeed, as table 1 in the annex shows, trends in the gross domestic savings ratio 3/ indicate respective rates of 18.6 and 16.8 per cent during the 1980-1983 and 1983-1985 periods.

8. Such low savings rates are worrisome since Africa's Priority Programme for Economic Recovery 1986-1990 stresses the adoption of bold economic policies with respect to the mobilization of necessary resources to put Africa on the road to dynamic and self-sustaining economic growth. Moreover, African Governments reaffirmed that the development of the continent was their primary responsibility and that national economic policies should give priority to programmes designed with such objectives in mind.

3/ Gross domestic savings is the difference between GDP and consumption.

9. Thus, despite their economic difficulties, African Governments committed themselves to raising from their own domestic resources 64.4 per cent of the total of $US 128.1 billion required way of fresh resources for the period 1986-1990. This is included in Africa's submission with a view to implementing the programme adopted by the special session of the United Nations General Assembly on Africa's Economic and Social Crisis (Doc. E/ECA/ECA.1/Rev.2 paragraph 100)

B. Outward looking aspect of African economies

10. External resources are linked to transactions with the world economy and are highly dissimilar in nature. 4/ They include:

(a) Earnings from the export of goods and services which, in this case, are financial resources obtained from trade with the world economy;

(b) Gifts, bilateral or multilateral official or private loans, received to supplement insufficient domestic savings or, usually, to finance actual or projected imbalances in the balance of payments. In so far as they have to be reimbursed, loans can be considered as advances on export earnings;

(c) Finally foreign capital in the form of direct investments or portfolio investments.

11. Such transactions are very diverse - they are the result of the dominant development model propagated by the world economy regardless of their origin. 5/

C. The current volume of external resources

(i) Total flows

12. In terms of 1980 prices and exchange rates, official development assistance from the member countries of the Development Assistance Committee (DAC), the Organization of Petroleum Exporting Countries (OPEC) and multilateral institutions to all African countries which attained the level of $US 22.5 billion in 1982 dropped to $US 19.9 billion in 1986, i.e., a decline of nearly $US 3 billion. As table II shows, the estimates for 1987 indicate a slight improvement to $US 20.3 billion. In view of the combined effects of inflation and erratic movements in the domestic policies of the developed countries that supply funds it is quite probable that there will be even further declines in the levels of external resources.

4/ See Comeliau: Interdependances et styles de developpement OCDE 1986, pp. 33-44.

5/ The Lagos Plan of Action stressed the need for African countries to rely on their own individual and collective strengths in order to combat such domination

13. If the external flows to Africa are compared to what is needed to compensate for the sharp decline in export earnings it becomes quite clear that over the past few years developed countries and multilateral institutions have not provided maximum assistance to Africa. Indeed, over the 1981-1985 period, average annual losses in export earnings 6/ which were $US 2.5 billion were offset by total average annual external resource inflows of about $US 20.7 billion. On the other hand, there was such a considerable increase in losses of export earnings in 1986-1987 that the scanty inflows of assistance were not able to cover the shortfall which amounted to $US 34.7 billion in 1986 and $US 33.6 billion 1987. 7/

(ii) Export earnings

14. Export earnings are of crucial importance to African economies but their decline has considerably reduced the region's capacity to cover its imports. Faced with the need to save foreign exchange, many African countries have been forced to reduce their imports and thus slow down their economic growth and reduce the standard of living of their people. Since most African countries are dependent on imported capital goods andproduction factors, import restrictions have led to the under utilization of existing capacity in the agricultural sector, in industrial sectors in support of agriculture and in other sectors. Export capacity has therefore been reduced and foreign exchange earnings have subsequently declined considerably.

15. This situation has been further aggravated by Africa's heavy dependence on trade in commodities. There is now a problem with respect to export earnings from commodities due to the fact that very few of the commodities are processed. Also the commodities trade continues to be influenced by general trends on the world market particularly in the industrialized countries.

16. Arrangements to provide compensatory financing for shortfalls in commodity export earnings such as STABEX and SYSMIN arrangements of the European Economic Community (EEC) and the IMF Compensatory Financing Facility,have proved either insufficient or not adequately accessible. STABEX disbursements rose from $US 112 million in 1985 to $US 234 million 1986, but compensation rates in those years have generally been low in relation to the losses of export receipts. Since 1986, IMF has reached agreement with seven African countries to provide $US 300 million under its Facility. However, access to this Facility which was originally to be quick disbursing and to have minimal conditionality, has become increasingly difficult because it is associated with meeting the adjustment requirements of the IMF.

6/ See World Bank: Gains or losses in export earnings are assessed by the formula Xe = Ci - Xi.

Xe = Trade earnings
Ci = Capacity to import
Xi = Value of exports expressed in base year prices.

7/ The figures are culled from the World Bank contribution to the report of the United Nations Secretary General on the United Nations Programme of Action for African Economic Recovery and Development.

(iii) Other capital flows

17. For Africa as a whole, private flows (lending plus direct investments) fell continuously from $US 7.5 billion in 1983 to $US 4.5 billion in 1985, $US 2.8 billion in 1986 and $US 2.0 billion in 1987. Net private lending declined in nominal terms by $US 0.2 billion per year in 1986 and 1987. Although smaller than official flows, private sector financing has occupied an important niche in external resource flows to some African countries and its revival would contribute to their recovery. Direct foreign investment and joint foreign-local enterprises offer the additional advantage of access to management expertise, technology and international markets.

(a) Official development assistance (ODA)

18. The majority of resource flows, excluding export earnings, to Africa are official development finance, predominantly official development assistance (ODA) which traditionally accounts for some 70 per cent of total resources. ODA has been a steady and vital source of funding for Africa and it now accounts for over 73 per cent of net resource flows to the region. Net ODA to sub-Saharan Africa increased in current prices from $US 11.7 billion in 1986 to $US 13.3 billion in 1987, however, measured in 1986 prices and exchange rates, it declined in both years.

(b) Bilateral flows

19. The share of sub-Saharan Africa in world-wide bilateral gross disbursements of ODA from DAC donors remained fairly constant at about 22 per cent during the first half of the 1980s, increasing to almost 23 per cent in 1986. Africa's share of bilateral ODA can be expected to increase further in line with measures being undertaken to mobilize resources to support implementation of the Programme of Action.

(c) Multilateral flows

20. The multilateral component of net ODA disbursements (excluding technical assistance grants) to Africa increased by 23 per cent in current dollars in 1986, following an increase of 12 per cent in 1985. In terms of constant prices and exchange rates, the growth of net disbursements in 1986 translates into an increase of about 1 per cent. In 1987, the major multilateral institutions are estimated to have increased their net ODA disbursements by 30 per cent in nominal terms or over 20 per cent at constant price and exchange rates.

(i) World Bank Group

IBRD

21. Gross International Development Association (IDA) disbursements to Africa rose from $US 0.9 billion in 1985 to $US 1.2 billion in 1986 and $US 1.6 billion in 1987. For 1988, programmed commitments of concessional lending are $US 2.1 billion, an increase of 30 per cent from commitments in 1987. The proportion of IDA funds going to Africa increased from 27 per cent in 1981 to

35 per cent in 1987 and is expected to reach 50 per cent under IDA-8. IDA disbursements to low-income countries in Africa in 1988-1990 may be some $US 6 to 7.5 billion, about two-thirds above the levels reached in 1985-1987, this will represent a substantial real increase. The share of non-project assistance, which disburses much more rapidly than regular lending, increased from 13 per cent in 1984-1985 to 28 per cent in 1986-1987. In countries with strong economic reform programmes, more than half of IDA lending is quick disbursing. Fifteen African countries are IBRD borrowers, and the general capital increase for the World Bank, which became effective in April 1988, will allow an increase in IBRD lending of 10 per cent per year.

The International Finance Corporation (IFC)

22. During fiscal year 1987, the International Finance Corporation approved loans and equity investments for Africa totalling $US 130.6 million in 15 countries bringing total ventures held to $US 575 million. This compares to a total of $US 480 million in 1986 and 417 million in 1985. In addition, beginning in 1986, the IFC co-sponsored (with UNDP and the African Development Bank) the Africa Project Development Facility to provide advisory services to private entrepreneure is sub-Saharan Africa to prepare viable projects. The project had disbursed $US 7.2 million as at October 1987. During the first four years of operation, the Facility is expected to assist in obtaining financing for some 100 projects at an average investment cost of $US 1 million per project.

(ii) International Monetary Fund

23. The Fund is actively disbursing resources under its SDR 2.7 billion structural Adjustment Facility (SAF), which was launched in March 1986. It also put in place in December 1987 the SDR 6 billion Enhanced Structural Adjustment Facility (ESAF), bringing total concessional resources for assisting poorer countries, including those in Africa, to SDR 8.7 billion. In addition, other IMF facilities are being adapted to assist African countries that are adopting comprehensive adjustment programmes. By the end of March 1988, the Fund's commitments to African countries amounted to SDR 2.5 billion, compared with SDR 1.1 billion at the end of 1985.

24. In 1986, IMF became a net receiver of funds from African countries, as repayments exceeded drawings by $US 0.5 billion. Estimates for 1987 show a net outflow of $0.6 billion. IMF charges increase this outflow further. For sub-Saharan Africa, it is estimated that there was a net transfer of financial resources from Africa to IMF of close to $0.9 billion in both 1986 and 1987, equivalent to 1.4 per cent of the region's exports of goods and non-factor services.

(iii) African Development Bank

25. The trebling from $US 6.6 billion to $US 23.0 billion of the authorized capital of the African Development Bank (AfDB) and the 50 per cent increase of $US 2.9 billion in the concessional resources of the African Development Fund are expected to unable the AfDB group to lend more during 1987-1991 than it did

during the past 20 years. Over 1986-1987, AfDB group loan approvals amounted to SUS 3.8 billion, a 46 per cent increase from the $2 billion approved during 1984-1985. This indicates a considerable improvement when compared to the average biannual increase in loan approval during 1980-1985. In addition, under the 1987 replenishment [illegible] per cent of the technical assistance resources of the Fund will be channelled to the lowest income countries on grant terms previously the bulk of such assistance was provided on a loan basis.

(iv) Private flows

26. Private resources make up a considerable portion of total external flows to Africa. Private flows are solely attracted by bright trade prospects, a liberal economic climate and political stability in the beneficiary countries. The total volume of private flows to Africa is very low and is declining: from SUS3.7 billion in 1982 it fell to SUS [illegible] billion in 1987. 8/

27. Conditions of access have been made even more difficult by real interest rates that have attained unimaginable heights 9/ aggravating the external debt of African countries. The origins and consequences of this state of affairs have been amply analysed and various proposals have been made in order to ease the debt crisis. 10/ Although the various proposals constitute a concerted approach to solving the debt problem, that approach will have to be bolstered up by an increase in resource flows in order to promote the economic recovery and development of the most indebted African countries.

8/ See table II.

9/ According to OECD's 1987 Year Book and the statistics of the World Bank, real interest rates have attained incredible levels over the past few years. In 1982 they were [illegible] per cent and in 1986 they had risen to 21.0 per cent. Real rates = Libor - Annual growth rates of export prices.

10/ UNCTAD Resolution 165 (S IX).

ECA: (a) Minutes of Meeting of the Executive Committee, Arusha, 23-25 October 1978, Doc. E/CN.14/ECO/153; (b) the External Debt of African countries, Doc. E/ECA/TRADE/10.

UNCTAD "Debt management and financial analysis", the UNCTAD "programme"; ECA "Management of Africa's External Debt", an issue paper by ECA to the high level UN Advisory group on resources flows to Africa." ADB "Proposal for Refinancing African External Debt." IIF/1988, "Task Force on Non-concessional Flows to Developing Countries", Washington, May 1982.

OAU: Third Extraordinary Assembly of Heads of State and Government. African Common Position on Africa's External Debt Crisis.

ECA: Special Memorandum of the ECA Conference of Ministers on Africa's Economic and Social Crisis. Doc. E/ECA/CM.10/37/Rev.2

UNCTAD: Growth,Development Finance and Aid. Costs and benefits of aid: an empirical analysis, Doc. TD/7/Suppl.10.

P.N. Rosenstein-Kodan: 'Etude sur l'évaluation internationale independante des efforts de développment national'. Document prepared for UNCTAD Doc. TD/7/Suppl.15.

CHAPTER II: EVALUATION OF THE IMPACT OF EXTERNAL FINANCIAL RESOURCES ON AFRICA'S DEVELOPMENT

28. It is difficult to assess the macro-economic effects of external resource flows. 11/ There is a dearth of statistical information and it is difficult to isolate such flows from all the other mechanisms through which the world economy controls national economies 12/ on the one hand, and, on the other, the impact of such resources varies very considerably particularly due to the clusters of interests they cater for and the types of domestic reactions they trigger. 13/ However, the two approaches below could be used:

A. The theoretical approach

29. Two aspects dominate under this approach. 14/ In the first analysis all the growth models are based essentially on the asumption of a fixed capital co-efficient and a constant propensity to save. In line with this asumption, the growth models show that the external resources of developing countries attain performances that trigger increases in GDP growth rates. The analyses and simulations made suggest that external flows would supplement domestic savings and trigger an increase in investment rates. In the second analysis, it was noticed that external flows stimulated the marginal propensity to save by increasing per capita income, in other words, this type of model asummes that any increase in external flows is entirely devoted to increasing the investment rate and consequently affects GDP growth.

30. This asumption is contradicted both by the figures in table III and by the performance of African economies. Indeed, all the African countries recorded low GDP growth rates which had very little to do with the rates of external rasource flows. Thus, there were changes in external capital flows of 9 per cent in 1984, 5 per cent in 1985, and 16 per cent in 1986.

11/ Ch. Comeliau op.cit, p.40

12/ Andre Grjebine La nouvelle économie internationale. De la crise mondiale au developpement autocentre, puf 1986

13/ In some countries acute food crisis have triggered the expansion of a considerable flow of external resources but such flows have resulted today in the perpetuation of a social and political system which is created and controlled by the beneficiaries.

14/ K.L. Greffin and J.L. Enos: Foreign assistance objectives and consequences. Economic development and culture change, April 1970 pp. 313-337.

31. According to some theories, during an initial development phase be external resources can substituted for domestic savings. In such a situation, the external resources increase the capital co-efficient and consequently reduce growth rates. The explanation for this is that projects financed by external capital are generally more capital intensive than those financed by domestic savings.

32. Moreover, a considerable portion of official development assistance funds are channelled into projects which are not directly productive or which have long gestation periods. Observations made during the 1960s on externally financed projects, should that the bulk of external funds went into infrastructural projects such as roads, ports and airports. More recently, after 1975, attention has been accorded to social programmes such as education, housing or physical infrastructure such as irrigation canals and hydroelectric dams. These are projects which do not have a direct impact on GDP.

33. Even if external resources are directly invested in productive activities, they might still have a slight impact on growth especially if they are channelled into capital-intensive industries. Under such circumstances, it can be concluded that the primary effect of external resources is to increase the capital co-efficient and reduce GDP growth rates.

34. From simulations carried out using a system of multiple regressions, it was realized that external resources played an insignificant role in growth when they did not delay it. 15/ These findings show that two questions still remain unanswered:

(a) How can the positive or negative effects of external resources considered as additional flows for domestic savings be measured? Or

(b) How can the effects of external resources in discouraging national savings and delaying GDP growth be measured?

B. Empirical evaluation

35. From the comparison of studies undertaken over the past few years 16/ and simulations, it can be concluded that the injection of external resources into African economies had only a limited impact on GDP growth. The co-efficients of regression equations (R^2) are not very significant and only 26.5 per cent of GDP growth can be attributable to external resource flows.

15/ The ECA Secretariat has tried to examine the extent to which GDP growth depends on external resources the results are in table III. Below is a look at GDP growth expressed in terms of external flows over 10 years:

R2 = 0.0009; D.W.
D.W. 2.0513
T. student 0.07

16/ Paul Mosley: Aid Savings and Growth Revisited, Ocford University Bulletin.

36. The same calculations were made on the debt only; they indicated that the debt accounts for only 15.7 per cent of GDP growth while development assistance would barely affect (R^2 = 0.0009) GDP formation. It should, however, be noted that the impact of development assistance is growing over time. If the induced effects of development aid 17/ is examined after two years, R^2 will be found to have increased to 0.1434 which means that 14.3 per cent of GDP growth is attributable to the injection of development aid evaluated after a time lapse of two years 18/

37. It follows that external flows cannot be considered as the driving force behind growth. They are rather one of many means of spreading the trickle-drawn effect of world economic growth to African countries and propagating the dominant development model that goes with such growth. 19/

38. External financial resources should not be mistaken for capital. In fact, such resources are not necessarily used to supplement domestic savings. The crucial issue that needs to be solved is that of knowing what such diverse resources are used for. It is not at all evident that external financial resources have contributed to capital formation since some transfers are obviously go into consumption: food aid falls into the latter category and the same holds true for the purchases of several types of equipment which hardly increase the production capacity of countries 20/ This also happens indirectly when external resources are used for speculative purposes or are channelled into pure consumption.

39. Another example is the consequences of external loans that many African countries contracted following the first oil shock. In some African countries, the products of such loans were simply consumed or were merely used to refinance previous debts and this creates a vicious circle of indebtedness. 21/ For all the above reasons, it can be said that the best method of financing national development is domestic savings. 22/ This is all the more true since external flows have resulted in the current debt crisis, the solutions to the crisis

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17/ Some authors such as Roger C. Riddell (ibid) feel that it is impossible to infer theoretically or prove empirically that there is a positive or negative relationship between aid and development.

18/ These poor performances are attributable to the fact that the estimation of the impact of GDP depends considerably on variables such as projected growth rates, the ability of countries to mobilize their own domestic resources and ability to use such resources and other non-quantifiable political and social variables having to do with the fundamental options of each country.

19/ Samir Amin. L'accumulation à l'échelle mondiale, Vol. I, collection 10/18.

20/ There are examples of countries that have steel rolling mills without having any iron mine, hydroelectric dams without industries that consume the power output, sugar industries that are far too large for the local sugarcane output or roads that lead nowhere financed by repayable external resources.

21/ Ch. Commeliau, op.cit., pp 39-40.

22/ ECA. The Strategy for the African Region in the International Development Strategy for the third United Nations Development Decade, Doc. E/CN.14/INF/107/Rev.1.

advocated by the IMF or the World Bank are causing social and cultural upheavals in some of the countries where they are applied.

40. Although an increase in the volume of financial transfers should be promoted, priority should be given to transforming the socio-economic structures of the beneficiary countries to make them more dynamic and enable them to support the growth and economic recovery of the beneficiary countries. This would certainly create a better environment for implementing the various reform measures and bring about a discernible recovery process. It cannot be over emphasised that unless the necessary resources are mobilized taking due account of the importance of adequate domestic savings, African countries will not be able to implement the priority programme for Africa's Economic Recovery and the United Nations Programme of Action for African Economic Recovery and Development. 23/

41. In the light of the foregoing, the resources management framework is of vital importance. Such a framework should be designed on the basis of a global approach that established a relationship between the mobilization of both internal and external resources and the efficient management of the external debt. There is hence an urgent need to take a fresh look at the basic elements of the current framework in order to enhance the expected effects on Africa's recovery, growth prospects and development.

23/ ECA: Beyond Recovery: ECA-Revised Prespectives of Africa's Development, 1988-2008, p.256 (E/ECA/CM.14/31).

CHAPTER III: WEAKNESSES OF THE CURRENT SYSTEMS OF RESOURCES MANAGEMENT

42. Currently, all external resources are managed on the basis of three systems:

(a) The systems of the International Monetary Fund, the World Bank and the Club of Creditors;

(b) The proposals of creditors;

(c) The positions of African States.

(a) The systems of IMF, the World Bank and club of creditors

43. The common objective of these systems is to provide debt-servicing relief by constantly reminding debtor countries of the need to strictly manage government finance and to balance the accounts of public and parastatal enterprises. The systems that the World Bank and IMF propose emphasise the development of exports in order to increase foreign exchange earnings. Such systems are based on the law of comparative advantages. 24/ The problem is whether it is possible to talk about the comparative advantage of minerals, oilseeds, cotton or other agricultural products such as coffee, cocoa, sugar and tropical fruits. All attempts made by African countries to increase exports have resulted in a steady decline in prices.

44. Under such systems, it seem as if the decipline imposed by the donors is wholly geared in the short term to repaying the debt and not to the long-term development of Africa. This has been proved correct in the countries that are today going through the bitter experience of rescheduling their debts under the Paris and London Clubs. Indeed, the sole objective of the agreements is to achieve a balance in public finances in the short term. In the medium and long terms, the rescheduled debt, arrears and current payments, including principal and interests have increased the total amount of the outstanding debt.

45. Another reason for failures is the application of unsuitable economic laws that are useful in a specific economic context. Debt rescheduling and stand-by agreements are usually accompanied by structural adjustment measures that often have harmful effects. Devaluations are imposed but exports do not necessarily become more competitive for the simple reason that devaluation does not automatically result in a more elastic demand for African export products.

24/ R.M. Lombardi: Le Piège bancaire: Dettes et développment, Flammarion 1985, pp. 35-38.

Tariff protection is reduced and whole series of young national industries are endangered. African economies do not react to stimuli in the same manner as those of developed countries.

46. One of the key conditions that the World Bank and IMF put forward for the success of structural adjustment and stabilization programmes in African countries is the availability of adequate external financing to augment foreign exchange resources in the transitional period for immediate import requirements. 25/

47. The management systems of the World Bank and IMF can only have a limited effect in the short term 26/ in that reference is made to some successful experiments in Asia while the specific conditions of African countries might not permit application of such experiments in Africa. 27/

(b) Proposals of creditors

48. Such proposals are mainly based on debts and endeavour to convert the debt into debt equity swaps. They propose buy back plans. Other propose a debt for export swap. However, such proposals have a number of drawbacks including the following:

(a) Debt equity swaps might put the capital of African businesses into the hands of transnational banks;

(b) Buy back plans bring down the balance-sheets of enterprises;

(c) Debt for export swaps are done at the expense of African countries whose capacity to repay their debts decrease in proportion to the exports used to cover their debts.

(c) The position of African states

49. It is also imperative that the resources management framework 28/ should be envisaged on a comprehensive approach linking together the size of export earnings, inflow of resources especially on concessional terms and the debt service

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25/ ECA: The implication of Structural Adjustment and Stabilization Programmes on Long term Growth and Development in African Least Developed Countries. Doc. E/ECA/LDCs.7/Exp.6/4 para. 41.

26/ The World Bank and IMF often highlight the experiences of the new industrialized countries of South-East Asia i.e., South Korea, Taiwan, Singapore and Hong Kong that are highly export-oriented countries and India, a State Continent, which focuses on its domestic market but seldom take into account the factors that destabilize African economies.

27/ Fr. CROJIGNEAU in Le Monde of 17 April 1986, feels that it is the current development models that are being questioned. The debate goes well beyond the financial equation alone.

28/ ECA: Africa's Debt Problem: Measurement, Management and Development Implications, Doc. E/ECA/PSD.5/3, para. 50.

obligations. Therefore, the role of the private sector should be fully considered in the debt management strategy. In this context, Africa's Priority Programme for Economic Recovery 1986-1990 and the United Nations Programme for African Economic Recovery and Development 1986-1990, stressed the importance of mobilizing adequate domestic and external financing and of effective management of external debt; this has been clearly stressed in the preceding chapters.

50. However, developed countries oppose Africa's solutions; they refuse to see Africa's social and economic problems in a favourable light. The measures taken by industrialized countries to combat inflation have led to world recession which has depressed demand and made export earnings unstable. 29/ This is unfortunate in that a majority of African countries depend on not more than three export commodities, i.e., coffee, cotton and cocoa for the bulk of their foreign exchange earnings which serve as the principal source of external resources for development. Aid, debt relief and direct foreign investments can only supplements trade in this respect. In the African context, and until their economies are sufficiently diversified, trade in commodities must provide the bulk of development resources.

51. The most critical aspects of the methods currently in use in African countries is their inability to identify sources of external resources coupled with the lack of management mechanisms. This is all the more true in that presently, one of the major problems facing African countries is how to establish mechanisms to identify sectors where external resources are required, the type of resources required such as aid, loans and investments and mechanisms for evaluating terms under which such resources are granted. Such mechanisms are vital because external resources are like Trojan horses. They have to be scrutinized carefully because it is always possible that even with apparently affordable terms the mechanisms might include certain commitments which might make resource inflows less effective. Such is the case in particular of aid tied to the purchase of goods and services from the donor countries; the prices of such goods and services are higher than prices on the open market. 30/

52. Another serious problem is the lack of independent banking and financial institutions capable of mobilizaing domestic resources for development. Therefore Africa, like all the developing regions, has heavily relied on external financing for a considerable part of its current as well as development expenditure. It is common knowledge that Africa remains heavily dependent on imports the bulk of which can be secured only through foreign exchange, the primary source of such foreign exchange is exports of goods and commodities as well as external resources in the form of aid, loans and investments for development purposes. Such external capital has, however, not permitted the development of export capacity to earn enough revenues to repay the debts.

29/ Doc. A/43/500, op.cit. para. 124-125.

30/ John PINCUS: Costs and advantages of external aid. Empirical study carried out on behalf of the Secretary-General of UNCTAD, Doc. TD.7/7/Suppl.10.

CHAPTER IV ANALYSIS OF OTHER SYSTEMS OF EXTERNAL RESOURCES MANAGEMENT INCLUDING DEBT MANAGEMENT

53. It is certainly true that most of the measures that are reviewed under this chapter including the Common African Position on the external debt crisis and many other studies and declarations on the gobal issue of external resources have already been covered in detail.

54. It is also agreed that there are still many obstacles to the implementation of all such measures hence the importance of convening an internationl conference on the external debt.

55. It has therefore been found necessary in the course of this analysis to emphasise some of the key ideas of such measures in order to enrich efforts to find ways and means of better understanding and utilizing such management instruments.

56. So far, African countries have been dependent on industrialized market economy countries to provide outlets for their commodities and to supply them with capital equipment and manufactured goods as well as financial resources. Today there are many reasons to believe that such markets might not always be available. Such reasons include the common agricultural policy adopted by the member countries of the European Economic Community, the rapid development of synthetic substitutes for commodities and competition from countries in other developing regions. Moreover, there is no guarantee that commodity prices will not fluctuate again. Also, prospects for restructuring Europe in 1992 will certainly cause inevitable changes in conceptions of economic policies and related behaviour as a whole. Foreign exchange earnings from commodity exports might not increase sufficiently to cover, for example, the level of imports needed for development.

57. Given such an uncertain future, the Lagos Plan of Action represents a development strategy for African countries as it calls for the restructuring of African economies on the basis of national and collective autonomy and self-sustaining development.

58. As far as the growing external debt problem, is concerned, Africa,s heavy debt-servicing burden is considered a major obstacle to the economic recovery and accelerated development of the continent. As a result of these facts, in July 1985 Africa's Priority Programme for Economic Recovery 1986-1990 considered that Africa's external debt was the most important aspect of the continent's economic and social crisis. Later on, at their Third Extraordinary Assembly held in Addis Ababa on 30 November and 1 December 1987, the Heads of State and Government of the Organization of African Unity deplored the fact that despite the efforts made by individual States to solve the crisis and despite repeated appeals to the international community, no tangible and lasting solutions had been found.

59. The Common African Position on Africa's external crisis adopted to that effect concluded that a lasting solution to the external debt problem of developing countries could be found only within the framework of global and concomitant measures in the major economic sectors given the interdependence between external debt, external resource flows, development, improvement of the international trading system, better commodity prices and reform of the international monetary system.

60. In order to establish new measures and policies for managing external resources including debt relief, measures that would enhance the repayment capacity of African countries should be given priority. There are several possibilities in this regard:

(a) At the national level

61. The issue here is how to increase domestic savings.

62. Two main arguments are often used to justify the role of government in the savings process. 31/ It is often necessary in an environment in which incomes are low that the government should compensate for insufficient levels of private sector savings by the use of taxation and other forms of involuntary savings techniques such as compulsory savings deductions from incomes and social security or forced savings. Governments should be able to employ taxation and the appropriate use of tax resources to act countercyclically.

63. It would therefore be useful to examine taxation in Africa in the framework of the complementarity between public and private savings and therefore, to search for strategies that enable efficient and equitable tax structures to be created which also provide the maximum incentives for national savings mobilization.

64. Such problems and issues form the basic framework within which strategies and mechanisms to mobilize domestic resources should be examined.

65. Moreover, efforts could be made to:

(a) Explore prospects of raising the level of savings through taxations that would guarantee expansion in investments without inflationary pressure 32/

31/ African Development Bank and Economic Commission for Africa, Economic Report on Africa 1967.

32/ Ch. Tsafack Nanga, Le service de la dette publique exterieure in les Annales africaines, 1967. The author develops a development taxation model that does not have inflationary pressure.

$$\frac{\Delta y}{y} = \frac{1}{k}[b(1-a) + a-b]$$

y = domestical product
k = marginal capital coefficient
b = percentage of individual income saved
a = corresponding rate of taxation
h = proportion of domestic product devoted to public expenditure on goods and services

(b) Establish appropriate institutional mechanisms at the national level responsible for signalling, monitoring and regularly evaluating external resources. This requires that a training programme be urgently designed to give refresher training to senior and intermediate technical and administrative staff of the public services and staff to some national financial and banking institutions in the modern methods of external resources management.

(c) In the particular case of the debt, there is an urgent need to establish efficient systems of debt signalling and monitoring at the national, subregional and regional levels. Currently, such activities are carried out on an as needed basis.

(b) At the regional level

66. The following measures should be envisaged: Adoption of appropriate policies and measures for mobilizing domestic resources in order to make Africa more dependent on its own resources to achieve recovery and growth; reduction of inflation and improvement of economic and financial management; improvement of the quality of investments in the public and private sectors; granting of incentives to foreign exchange earning or saving projects; preparation and implementation of programmes for the development and efficient utilization of human resources in order to improve productivity and stimulate scientific and technical development.

67. In debt relief negotiations steps should be taken to push back the adjustment deadline to enable debtor countries to concentrate their efforts on economic development. This would improve the decision-making process at the government level as well as the planning of investment programme in all sectors.

68. Global negotiations should also focus on the policies of industrialized countries that affect the repayment capacity of African countries either because they increase the spending of African countries (interest rates and import prices) or reduce their revenues (export prices and trade barriers).

C. Measures to be applied by developed countries and international financial institutions

Bilateral official loans and publicly-guaranteed loans

69. Creditor countries should take steps to convert a substantial number of past loans into grants; consider accepting repayment of part of the debts in local currency; the terms for granting official loans and publicly-guaranteed loans should be adjusted in line with the terms currently applied to credits of the African Development Fund; non-ODA publicly-guaranteed debts and debt-servicing payments should be converted into long-term low-interest loans.

Multilateral loans

70. Multilateral development financing institutions including the World Bank should increase the net resource flows to African countries at terms commensurate with the economic situation of African countries; priority should be given to sending direct resources to sectoral programmes and to loans other than those

under quick disbursing projects with a view to bringing about recovery and development. IMF should not become a net recipient of resources from Africa but should rather consider rescheduling its credits, establishing an additional funding facility and make its conditionality more flexible to take into account the problems that African countries are facing.

International commercial banks

71. They should make their loan terms more flexible and reduce their interest rates, lengthen maturity, grace and rescheduling periods, they should convert commercial debts into transferable securities with maturities of at least 25 years and at lower interest rates; short-term arrears should be converted into long-term loans.

Reschedulings

72. Rescheduling should provide real debt relief and not merely postpone reimbursement. Negotiations should work on achieving a constant ratio of debt servicing to export earnings, debtor countries could be reasonably expected to devote such a percentage to the servicing of their debts. Should rescheduling prove necessary, multi-year rescheduling of a minimum of 5 years should be the norm with maturities of at least 50 years, grace periods of 10 years and Zero interest rates. Mechanisms should be explored whereby debt-service payments agreed after rescheduling could be applied to effectively address both the principal and the interest, for example, the creation of a redemption fund to amortize the principal; the conditionality of implementation of stabilization programmes with IMF should be removed in order to obtain debt relief from creditors; under debt rescheduling, creditor countries should not require the African debtor countries to adopt measures and economic doctrines that are incompatible with their economic and social systems. Although the standard approach of the Paris Club has made conditions with respect to extending maturity and amortization periods as well as multi-year reschedulings more flexible, it should still be reviewed to prevent the debt and considerable debt-servicing commitments becoming heavier. Moreover, the economic declaration following the Toronto Summit will only have an appreciable impact if substantial reforms are introduced into the Paris Club system whose decisions are still based on case-by-case negotiations.

Resources for development

73. From the analysis of individual country situations, 33/ it appears that at current prices, exports of 1986-1990 could at best improve on the performance of the 1980-1982 period by about 25 per cent. 34/ This estimate assumes that African countries will adopt policies that promote the expansion of exports and that industrialized countries will not strengthen their protectionist measures.

33/ World Bank. Adjustment needs in economic growth in Sub-Saharan Africa 1986-1990, p.49.

34/ Ibid. The World Bank estimates export earnings at an average of $US 20 billion over the 1986-1990 period.

74. Although the United Nations Programme of Action recognized the need to deal urgently with commodity issues, international co-operation has made little progress in this area. During 1986-1987, African non-oil commodity export earings were only $US 24 billion per year, about 20 per cent less than in 1985.35/ Unless there are profound changes, Africa's long-term development prospects will remain bleak and this will result in a considerable increase in external resources requirements. Hence, some of the following measures could be stressed in order to give the necessary impetus to export earnings and other resources required for development.

75. Developed countries should take action to substantially reduce international interest rates on existing and future loans, stop the net drain of resources from Africa particularly to multilateral institutions such as the World Bank and IMF; raise the eligibility ceiling of loans under IDA to enable more African countries to qualify for IDA resources and ensure that at least 50 per cent of such resources are set aside for assistance to Africa. Contributions under IDA should be fully paid up as soon as possible and the earlier terms of IDA loans should be restored, i.e., a grace period of 10 years and a repayment period of 50 years and a service charge of 0.75 per cent; special drawing rights (SDRs) should be increased to at least 15 billion; IMF conditionality criteria should be substantially eased and any co-ordination between IMF, the World Bank and other multilateral financial institutions should not lead to crossed conditionality; the World Bank should re-establish the Special Facility for Sub-Saharan Africa.

76. The other suggestion is that borrowers should focus on seeking financing in the form of equity investments in order to cover risks and perhaps attract new sources of capital particularly direct foreign investments. It should be noted in passing that direct investments to African countries were very low in 1985 at 1.6 billion, in 1990, they are estimated to be 2.3 billion while in the year 2000 they will still be only 4.5 billion. This is a low growth rate of 7.1 per cent a year.

77. Available data do not make it possible to forecast an increase in direct investments which would be enough to cover Africa's development requirements. Creditor countries would have to reinvest the debt-servicing payments due them in the form of equities either by purchasing treasury bonds of African countries or taking direct shares in African businesses.

78. African countries could, in addition, with the assistance of creditor countries and international financial institutions, issue permanent shares aimed at attracting fresh capital in the form of loans. The old debt would be refinanced in the form of perpetual loans that are periodically quoted on the market.

35/ A/43/500 op.cit. para. 124-129

Measures to support least developed countries and other disadvantaged countries in Africa

79. The developed countries should urgently implement the measures provided for under paragraphs 134 to 140 of the Final Act of UNCTAD VII as well as the provisions of resolutions 165(S-IX) of the UNCTAD Trade and Development Board. All assistance to LDCs should be in the form of grants; developed countries should also honour their commitment to give a minimum of 0.15 per cent of their GNP to LDCs, cancel a considerable portion of LDC debt and adopt interest subsidies and refinancing on very concessional terms, delete the cross-default clause used by some donor agencies when a borrower country fails to meet data limits of payment; this clause governs the granting of additional loans.

International Conference on Africa's External Debt

80. Developed creditor countries and international financial institutions should agree that the planned conference is not a confrontation. They should therefore actively support the convening of such a conference which is a sincere attempt to find tangible and lasting solutions to Africa's external debt.

GENERAL CONCLUSIONS

81. At the end of this analysis, it cannot be stated that a lasting solution to the question of formulating guidelines on the management of external resources has been found.

82. This study, which is part of research on the global management of African economies, has used a considerable number of strategies contained in both the Common African Position on the external debt crisis as well as other declarations to try to define an appropriate framework for launching programmes for self-sustaining growth and economic development.

83. This suggestion-rich framework has attempted to use many measures and strategies likely to result in specific studies highlighting, for example, a number of problems such as the problem of interest-rate moratoriums on the consolidation of commercial debt (creditor countries are very divided on this issue and the majority feel that the rates should remain market rates and not become concessional), the problem of controlling the amount of rescheduled debts and simplications of procedures.

84. Since there are still many economic, technical and administrative constraints to the implementation of the existing framework, the establishment of new management instruments necessarily requires that the best use be made of the suggestions put forward in this study. The suggestions, coupled with specific studies are meant to guide the countries concerned on how to go about improving the mobilization and allocation of the scanty external resources they have at their disposal.

85. Efforts at enhancing the mobilization and allocation of external resources are vital because although management is the sole responsibility of African governments themselves the nature of the problem considered in the present document is such that the international community must participate and help in finding and implementing measures likely to resolve the crisis. Consequently, the fact that the crisis is still going on proves beyond any doubt that a concerted effort is required at the international level to help African countries to adopt appropriate domestic and external resources management strategies. Sources of financing would have to be identified, foreign exchange earning projects should be selected and carefully designed and debt income should be allocated to critical sectors that promote the economic recovery and self sustaining growth of African countries.

86. The foregoing fully justifies the convening of an international conference on Africa's external debt in so far as it could be a sincere attempt to find concrete and lasting solutions to Africa's external debt crisis. Such solutions should bring about substantial improvements in mobilizing a considerable protion of necessary foreign exchange resources and facilitate the management of such resources in the light of long-term development requirements of African economies.

Table I

Gross domestic savings ratio 1980-1987

(Percentage of GDP)

Africa	1980-1983	1983-1985	1986	1987
Total Africa	18,6	16.8	16,4	19.3
Sub-Saharan Africa	14.5	11.6	11.1	14.3

Source : United Nations doc. A/43/500/Add.1.

Table II

Net resource flows to Africa, 1982-1987

(Billions of current US dollars)

	1982	1983	1984	1985	1986	1987 a/
Sub-Saharan Africa						
I. OFFICIAL DEVELOPMENT FINANCE (ODF)	10.8	10.6	12.0	11.9	14.9	13.2
1. Official development assistance (ODA) of which:	9.1	9.0	9.4	10.6	12.9	
Bilateral disbursements	6.5	6.4	6.6	7.3	8.9	
Multilateral disbursements	2.5	2.6	2.8	3.3	4.0	
2. Other ODF of which:	1.7	1.6	2.6	1.3	2.0	
Bilateral disbursements	1.1	0.9	1.8	0.5	1.2	
Multilateral disbursements	0.6	0.7	0.8	0.8	0.8	
II. TOTAL EXPORT CREDITS	1.9	1.5	0.0	0.3	0.4	
1. DAC countries	1.8	1.4	x	0.7	0.3	
of which: Short-term	0.2	0.5	-0.1	0.4	0.6	
2. Other countries	0.1	0.1	x	0.1	0.1	
III. PRIVATE FLOWS	3.7	2.0	0.4	2.2	2.2	2.3
1. Direct investment (OECD)	1.0	0.8	0.6	0.5	0.7	
2. International bank lending	2.0	0.5	1.0	0.8	0.5	
3. Total bond lending	-	-	-	-	-	
4. Other private	-		-	-	-	
5. Grants by non-governmental organizations	0.7	0.7	0.8	0.9	1.0	
Sub-total for sub-Saharan Africa	16.4	14.1	12.4	14.9	17.5	20.5
North Africa	2.2	2.2	2.4	3.0	2.4	2.4
Total Africa	18.1	16.3	14.8	17.9	19.9	22.9
At 1986 prices and exchange rates						
Total Africa (b)	22.5	19.3	18.4	22.0	19.9	20.3

Source: OECD

a/ Preliminary estimates.

(b) ECA calculations

Table III

Results of simulation

Dependent variable		GDP growth	
Variables	Constant	R^2	D.W.
1. Debt			
0.013655	-1.56544	0.1577	2.1333
(1.06)	(-0.78)		
2. Other flows			
0.020829	0.089403	0.0009	2.0513
(0.07)	(0.02)		
3. Export earnings			
-0.063642	0.340113	0.2071	2.5950
(-1.25)	(0.58)		

Source: ECA Secretariat/

( ) T = Student

Table iV

Confidence rating given to some African countries by international bankers (over 100) September 1987

African rating	Country	World rating	Mark/100	Change over 1 year
1	Algeria	42	43.8	-6,6
2	Cameroon	49	36.7	-1,7
3	Gabon	52	34.5	-5,9
4	Tunisia	53	34.1	5,6
5	Kenya	62	29.8	0,0
6	Cote d'Ivoire	66	26.5	-0,9
7	Mauritania	69	24.2	-0,6
8	Libyan Arab Jamahiriya	74	22,8	-4,5
9	Morocco	75	22,5	-0,5
10	Zimbabwe	76	21,4	-1,8
11	Nigeria	77	20,8	1,9
12	Senegal	82	18,2	-0,4
13	Malawi	83	16,8	-1,3
14	Congo	85	15,9	0,1
15	Seychelles	91	13,1	-0,9
16	Angola	94	11,1	-2,5
17	Liberia	95	10,5	-0,5
18	Zambia	96	10,1	-0,9
19	Zaire	97	9,9	-0,9
20	United Rep. of Tanzania	99	9,4	-1,4
21	Ethiopia	101	8,9	-1,9
22	Sierra Leone	105	6,0	-1,2
23	Sudan	106	5,9	-1,4
24	Uganda	108	5,2	0,1
	Average mark of the continent		19,6	-2,0
	World mark		39,3	-1,2

Source Institutional Investors

The table shows that there is a close relationship between the confidence that international bankers have in African countries and the respective situations of the countries concerned.